National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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Governor

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Contents

EXECUTIVE SUMMARY

During the current Year 2010, Rwandan economy is evolving in a better international and national economic and financial environment compared to 2009. The recovery in the world economy is continuing to expand significantly, driven by developed and emerging economies, as well as developing countries. Rwanda is benefiting from this favorable environment in terms of external trade and capital inflows.

Rwanda's economic recovery during the first half of the current year has been marked by good performance in all production sectors and considering the improving dynamism in economic activities, the 2010 outlook could lead to a real GDP growth in range of 7-10% against 6.0% recorded in 2009. Indeed, in agriculture sector, the performance recorded during the last 2 years maintained momentum during this year 2010, achieving 8.2% increase in volume of foodstuffs production. As shown by the Composite Indicator of Economic Activities (CIEA) and the total turnovers registered by large companies in the industry and service sectors which are two key indicators of economic performance, non agricultural economic activities also performed well during the first half of 2010, showing a significant recovery from the 2009 low performance. The Composite Indicator of Economic Activity (CIEA) increased on annual basis by 9.2% in June 2010, against 3% in March 2010 and -0.7% in December 2009 while the total turnovers registered by companies in the industry and service sectors rose by 20.9% on annual basis during the first half of 2010.

In addition to good performance of agriculture production, significant improvement in banking system liquidity conditions and regained confidence in business activities constitute the major factors of overall economic recovery. Furthermore, the business climate has been stimulated by continuing low and quite stable inflation as well as a relatively stable RWF, despite a slight depreciation recorded against USD during the second quarter.

On money supply, after a declining trend during the first quarter of the current year, a rapid recovery during the second quarter has been recorded in Broad Money, following important improvement in net foreign assets and credit to private sector. The volume of new authorized loans by banks in first half of 2010 amounted to RWF 121.9 billions, representing an increase of 45.5% compared with the same period of 2009 where an amount of RFW 83.8 billion was

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authorized. The outstanding credit to private sector shows a moderate increase of 3.9% against 6.7% projected, reflecting simultaneous efforts by banks to recover non performing loans distributed before end 2009. Overall, a current increase in monetary aggregates remains moderate, giving room for further credit expansion for the second half of 2010.

To this end, the Central Bank has been conducting an accommodating monetary policy, by reducing its policy rate from 7.5% in force during the first quarter 2010 to 7% for the second, and keeping it unchanged for the third quarter. This policy rate maintains the cost of funds for banks at reasonable level, while keeping the banking system interest rates positive in real terms and thus, stimulates domestic saving mobilization.

Financial Sector soundness has been significantly improved as well, from the liquidity crunch and tightened credits conditions experienced in 2009. The consolidated balance sheet of the banking industry expanded by 8.3% during the first half of the year 2010 compared to the same period of 2009. As of June 2010 net loans and advances of commercial banks recorded 5.7 % of growth over the year to June 2010.

Commercial banks registered an increase of 8.7% in deposits base from 425.4 billion RWF in December 2009 to 462.7 billion RWF in June 2010. After a decrease during the first quarter of year 2009, deposits, being the dominant sources of financing the banks' assets, grew continuously since April 2010 indicating public confidence in the banking sector. During the first semester of 2010, stress testing showed a resilience of banks' capital to shocks in terms of increase in NPLs. NPL stood at 12.2% at end June 2010 compared to 13.1% in December 2009. The net NPL ratio stood at 10.4% if the interest in suspense is not taken into account.

With regard to microfinance sector, efforts have been focused on overcoming financial exclusion due to various barriers as evidenced by Rwanda Finscope 2008 survey. Licensing new MFIs, off-site surveillance and on-site examinations have been performed on ongoing basis. Considering the consolidated financial position of MFIs, total assets in the sector increased by 13.2% from December 31st, 2009 to June 30th, 2010 while equity has increased by 16.3%. Gross loans and deposits increased by 22.1% and 15.2%, respectively. However, the performance of saving and credit cooperatives has been very poor and the trend of non performing loans

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within this category of microfinance institutions is very worrying and requires a Government intervention to rebuild the credit culture.

In line with Government strategy to increase access to financial services while boosting domestic saving mobilisation, Umurenge SACCO Program is being implemented as planned. The first step of licensing has been completed where 416 SACCOs created in all sectors are authorized to open accounts for their members to receive deposits and withdraw funds when necessary. The full licensing process which will allow these SACCOs to distribute credits is on-going. It requires to produce a clear business plan and operational procedures to manage credit risk. We do expect this second step of licensing to be completed in the next 6 months.

Regarding the Capital Market Development, a number of achievements have been registered during the first half of 2010. Those include legal framework, capacity Building, securities Listed on ROTC, capital Market Incentives and regional Integration. The Rwanda Diaspora Mutual Fund was licensed and launched in December 2009. Of recent, a number of Rwandese in the Diaspora has expressed their desire to invest in the Government Securities. Process is underway to facilitate them participate in the October 2010 Bond issuance. It is expected that the number of securities traded to the ROTC market will increase before end 2010, including listing of Government shares in BRALIRWA.

Given that an efficient and smooth operating national payment system is a necessary precondition for business development and economic growth, in 2010, BNR and stakeholders continued to work on the payment system modernization program to ensure that payment systems are efficient and reliable. This program involves introduction of new payment instruments, mechanisms (systems) and improving the legal environment. Concerted effort was put in laying a robust legal framework so as to raise public confidence in Payment Systems. The BNR together with the World Bank carried out an assessment of the present legal framework with a view to identifying all the gaps and be able to work towards filling them in order to have a holistic legal framework that can support modern payment systems.

Concerning the retail payment systems, the banks continued to issue payment cards and using SIMTEL as a common platform ensures that the infrastructure is interoperable. On the other hand, SIMTEL started to issue to banks a proprietary card, which is personalised at SIMTEL and delivered to banks in not more than 48

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hours. The year 2010, also saw several initiatives in mobile payments and remittances companies being licensed. MTN Rwanda has been fully licensed to operate the "MTN Mobile Money" service as a mobile payment service. In the three months that MTN money has been in operation, there are 133 337 subscribers, and about 2 500 transactions per day.

The National Bank of Rwanda will continue to participate and play a leading role in all activities related to the establishment of the East African Monetary Union. These include the negotiation of the Monetary Union Protocol expected to be signed by 2012 as well as different priority activities identified by the last MAC that would be undertaken in the transition to East African Monetary Union (EAMU).

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I. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2010

I.1 INTERNATIONAL ECONOMY

I.1.1 Economic growth

The recovery in the world economy which started with the third quarter 2009 continued to expand during the first half of 2010 helped by concerted, stimulus and encouraging policy measures and improving financial conditions. According to the IMF world economic outlook of July 2010, global economic activity would recover by 4.6% in 2010 after a decline of 0.6% in 2009.

In developed economies, economic activity continued to improve, mainly driven by the USA where the real GDP increased by 2.7% in the first quarter and 3.2% in the second quarter 2010. In the Euro zone economy expanded by only 0.2% in the first quarter of 2010 and recent new austerity measures in many member countries to fight fiscal deficit may continue to limit the economic recovery in 2010 at a lower rate than 1% as projected by Eurostat. In Japan, the real GDP increased by 5% in the first quarter 2010 and is estimated to grow by 1.7% for the second quarter of 2010. This performance is explained by the improvement in business sentiment among major manufacturers and improving consumption spending and external demand.

The economic activity in emerging and developing economies shows signs of recovery drawn by the increase in commodity prices, stimulus policy measures and improving global trade and financial conditions. The economic activity is expected to increase by 6.8% in 2010 after 2.5% in 2009. In China, the growth rate stood at 10.7% in the last quarter 2009 and 8.7% throughout the year and reached 11.9%and 10.5% respectively in the first and second quarter 2010. In Sub-Saharan Africa, the economic growth is projected at 5.0% in 2010 after 2.2% in 2009.

In EAC member countries, the economic recovery strengthened during the first half of this year 2010, as evidenced by good performance achieved so far. Available statistics show that economic activities are strongly improving. The real GDP growth for the first quarter of 2010 is estimated in the range of 4-7% and the expectations for the rest of the year indicate good performance as well.

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I.1.2 Inflation and Commodity prices

Concerning price developments, with the beginning of 2010, inflationary pressures increased as the recovery in the economic activity became worldwide. In USA, the annual inflation stood at 2.2% in May 2010, against 1.6% in Euro zone during the same period. In Japan, annual inflation remained negative in May (-0.9%), April (-1.2%) and March (-1.1%).

With regard to commodity markets, oil prices continued to decline in June standing at $US 74.84 per barrel after $US 76.25 in May and $US 84. 98 in April 2010, recording respective declines of 10. 3% and 1.9%, due to new tensions on financial markets. When compared with the beginning of the year, oil prices declined by 2.0% in June.

For non energy commodities, world prices almost stabilized, but slightly higher in June 2010. When compared with the beginning of 2010, they increased by about 5% in early June. However, metal and mineral prices continued to decline in June as well as food prices mostly driven by grains and cereals following ample supply. For low and middle income countries, prices dropped by 0.6% in June for energy and by 1.7% in non energy after respective increase of 9.0% and 4.8% in May 2010.

I.1.3 Financial Markets

In the financial markets, money market interest rates slightly increased in April, in major economies due to tensions on financial markets resulting from sovereign risk in some euro member countries. The USA Federal Reserve three months interest rates increased to 0.54% in June from 0.27% in March. However, a ten year government bond yield continued falling in June (3.13%) from 4.01% in March, 2010.

The European Central Bank (ECB) maintained its policy rate unchanged at 1.0%, and the three months interest rate rose to 0.73% in June after 0.64% in March, while ten year interest rate slightly declined to 3.03% against 3.40% in April. In Japan the policy rate is still at 0.1%, while three months interest rates stabilized at 0.24% in June, May and April after 0.25% in March. In parallel, a ten year interest rate dropped to 1.18% in June while constant at 1.37% in May and April 2010.

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Long term interest rates declined not b ecause of the increasing economic activity but following the risk aversion related to Greek fiscal crisis and the possibility that policy rates would remain too low in the medium term.

With regard to exchange markets, the US dollar has been appreciating vis-à-vis the euro since Decem ber 2009. After an appreci ation of 6.3% in May, the US dollar also appreciated by 2.8% in June, a con tinued trend observed during the first half of 2010, resulting from the rising uncertainty on the European financial market and the flight in to safe assets which mainly be nefit to U S dollar. However, since the beginning of the second half 2010, the trend is reversing, whereby risk-driven trades that benefited the Dollar were giving way to trades driven by fundamentals, which conceivably favor the Euro. Equally, China, via its sovereign wealth fund, which is charged with investing its foreign exchange reserves (diversifying its reserves), contributed to reverse the trend.

Similarly, in June, the euro depreciated also by 3.4% compared to the pound sterling and by 4.2% in relation to the Japanese yen after a depreciation of 1.1% and 7.6% in May 2010, respectively.

I.2 NATIONAL ECONOMIC PERFORMANCE

I.2.1 Economic growth

Following low economic performance in 2009 compared to previous years due to credit squeeze resulting from important liqui dity crunch as well as well as to the global economic recession, the Rwandan economy is showing a recovery in 2010. Considering trend in key indicators of ec onomic activity such as composite index and total turnovers registered by large co mpanies in industry and service sectors on one hand and estimation of economic growth by the Natio nal Institute of Statistics of Rwanda on other hand, real GDP growth in 2010 is expected to be in the range of 7-10% against 6-7% projected at the beginning of this year. This high growth is driven by cont inuing performance in agriculture production and significant recovery in services and industr y. It is worth to note that the 2010 high growth rate is achieved with low and stab le inflation prospected at 6.4% by end 2010.

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1. Agriculture Sector

In agriculture sector, the performance recorded during the last 2 years maintained momentum during this year 2010. The 2010 season A and B harvests recorded an increase of 8.2% compared to 2009, driven by cereals and roots & tubers production which increased by 18.7% and 18.8% respectively. This sustained good performance of agriculture is attributed to the Government Crop Intensification Program and favorable climatic conditions. Following a particular focus made on cereals production, Rwanda is currently recording a boom in maize production with an increase of 53.7% in 2010, compared to 2009. This performance is currently leading to a dynamic trade activity of this crop especially between Rwanda and its neighboring countries.

Table 1: Food crop production (in thousand tons)

	2008	2009	2010	Annual % change
Total crops	**8234**	**9269**	**10028**	**8.2**
Cereals	**461**	**629**	**747**	18.7
Sorghum	144	175	148	-15.3
Maize	167	287	441	53.7
Wheat	68	72	86	19.1
Paddy	82	95	72	-24.7
Legumes	**392**	**431**	**449**	**4.2**
Beans	309	328	342	4.5
Peas 17		34	37	9.6
Groundnuts	24	15	13	-12.7
Soya	42	54	57	4.4
Roots & Tubers	**3815**	**4265**	**5065**	**18.8**
Irish potatoes	1162	1290	1794	39.1
Sweet potatoes	826	803	832	3.5
Taro	145	152	160	4.9
Cassava	1682	2020	2279	12.8
Bananas	**2604**	**2993**	**2780**	**-7.1**
Fruits and Vegetables	**962**	**950**	**987**	**3.9**

Source: MINAGRI

Regarding the export crops, a noticeable increase in coffee production during the 2010 coffee season is being recorded, when compared to previous year. Indeed, the production of tradable coffee is estimated to reach 26 thousand tons according to OCIR café projection, from 14.25 thousand tons in 2009 as a result of more use of fertilizers, recently renewed plantations and expansion of cultivated area under coffee and to seasonal factor such as favorable coffee cycle and conducive climate conditions.

Concerning tea, the production increased from 11246 tons in the first half 2009 to 13306 during the corresponding period of 2010, which is an increase of 18.3%.

This performance is attributed to the privatization of some tea factories leading to improvement of their production.

2. Non-Agricultural Economic Activities

As shown by the Composite Indicator of Economic Activities (CIEA) and the total turnovers registered by large companies in the industry and service sectors which are two key indicators of economic performance, non agricultural economic activities performed well during the first half of 2010, showing a significant recovery from the 2009 low performance due to credit squeeze as well as to the global economic recession. In nominal terms, the Composite Indicator of Economic Activity (CIEA) increased on annual basis by 9.2% in June 2010, against 3% in March 2010 and -0.7% in December 2009.

Important economic recovery is explained by total turnovers registered by companies in the industry and service sectors which rose by 20.9% on annual basis during the first half of 2010. The industry sector turnovers rose by 17.4% due to the high increase in the mining sector (+37.0%) and construction sector (+28.7%). The recovery was moderate in manufacturing and energy sectors, as their turnovers increased by 11.6% and 7.1% respectively. However, this growth in manufacturing industry is in the normal trend of the sector when we exclude two particular years 2008 and 2009 (2008 was characterized by a very high economic growth in the recent period and 2009 registered a negative growth linked to the credit squeeze and global economic recession). The annual change in manufacturing turnovers in the corresponding period of 2006-2007 was 8.7%.

The nominal growth of total turnovers in service sector was 22.4%, driven by turnovers recorded by transport and storage services (+33.7%), banks & insurance services (+22.3%), petroleum companies (+28.1%), post & telecommunication (+22.5%) and trade (+19.7%).

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Table 2: Monthly and annual % changes for the Industry and Services sector's total turnovers

	Monthly change						Annual change		
	Jan.	Feb.	Mar.	April	May	June	Jan-June 2008	Jan-June 2009	Jan-June 2010
INDUSTRIES	**-36.5**	**12.1**	**7.4**	**11.8**	**10.3**	**18.7**	**38.9**	**7.5**	**17.4**
Manufacturing	-27.0	15.8	5.4	0.4	23.5	12.5	42.7	4.6	11.6
Energy	1.0	5.4	-13.1	37.7	9.1	-12.7	30.0	36.4	7.1
Mining	11.0	-27.8	13.1	21.6	3.9	9.3	15.0	2.9	37.0
Construction	-68.1	38.5	21.0	21.7	-9.3	54.3	45.2	4.4	28.7
SERVICES	**-22.9**	**7.3**	**9.6**	**-5.8**	**2.8**	**7.1**	**41.2**	**4.3**	**22.4**
Trade Services	-25.0	2.6	15.9	-12.0	9.7	2.2	39.5	5.9	19.7
Banks & Insurance	21.2	-10.7	33.8	-14.1	2.0	15.4	47.6	7.8	22.3
Transport and Storage	-42.7	51.7	-20.9	-2.3	0.1	7.9	21.6	2.7	33.7
Garage Services	-39.7	46.1	-10.6	0.6	16.4	5.8	208.9	12.5	-42.4
Petroleum Companies	-18.7	3.4	11.3	7.3	-6.1	14.4	23.9	36.2	28.1
Posts & Telecom.	-6.7	64.3	-14.8	-1.8	2.8	0.8	23.9	36.2	22.5
Other Services	-19.9	-12.9	0.5	16.3	-12.4	16.0	39.5	24.6	24.6
TOTAL SALES	**-26.9**	**8.5**	**6.4**	**1.2**	**5.0**	**10.7**	**40.5**	**5.3**	**20.9**

Source: RRA, Department of Large Tax Payers

I.2.2 External Sector

Concerning the formal external trade during the first half of 2010, exports value increased by 26% in the first half of 2010 compared to the same period of 2009, while its volume declined by 7.5%. Despite the upward trend of imports during the last years, their value declined by 4.2% during the first half of 2010 due to price effect, while the volume increased by 17.6%. For the period under review, exports covered 17.3% of imports. This coverage rate of imports by exports is around 20% when informal cross border trade is included.

1. Exports

Rwandan exports remained dominated by traditional export product such as coffee, tea and minerals constituting 64.2% of the total export earnings in the first half of 2010. Tea exports have continued to perform better in both value and volume increasing by 35.6% and 19.3% respectively, resulting mainly from high international prices, from an average of 2.33 USD/kg in the first half of 2009 to an average of 2.65 USD/Kg in the first half of 2010.

Coffee exports performed poorly, decreasing by 7.3% in value and 20.5% in volume, as the coffee season started relatively later. Considering the importance of the 2010 harvests, coffee exports are expected to pick up in the second half of the year.

The mining sector underperformed as its exports value declined by 2.4%, while the volume fell by 20% during the first half of 2010 compared to the same period of 2009.

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This poor performance is attributed to declining trend of prices on international markets for most of minerals.

The value of re- exports and other export products representing 33.4% of the total export earnings in the first half of 2010 has significantly increased by 60.9% and 53.6% respectively. Other export products are dominated by a set of products including flowers, banana, other fruits, gold, textile, shoes, cassava flour, Water tank, personal effect representing 37.2% of the total export earnings of other exports in the first half of 2010; Wheat flour (14%), bovine cattle (10.9%), minerals other than tin, coltan and wolfram (7.3%). Globally these products are exported to DRC and EAC countries; except for minerals and hand crafts exported to UK, China, Hong Kong, USA, Belgium and Japan.

Re-exported products are dominated by cassiterite, exported to Switzerland as its value represents 75.5% of the total export earnings of re-exported products in the first half of 2010. Its exported value increased by 61% during the period under review. Other re-exported products include petroleum products and vehicles exported to DRC and Burundi and machines & engines exported to EAC countries.

Table 3: Export developments (Value in million of USD, Volume in tons)

	Jan.– June 2009		Jan.–June 2010		% change	
	Volume	Value	Volume	Value	Volume	Value
EXPORTS	**51 419**	**84.27**	**47 559**	**106.16**	**-7.5**	**26.0**
Coffee	4 275	9.50	3 400	8.81	-20.5	-7.3
Tea	10 624	24.80	12 675	33.63	19.3	35.6
Tin	2 064	12.58	1 683	15.26	-18.4	21.3
Coltan	418	10.00	390	8.08	-6.8	-19.2
Wolfram	530	3. 76	338	2.38	-36.3	-36.9
Hides and Skins	503	0.81	1 327	1.35	164.0	67.0
Pyrethrum	2	0.34	6	1.27	214.4	275.2
Re-exports	2 454	11.79	3 980	18.97	62.2	60.9
Other export products	30 550	10.69	23 760	16.43	-22.2	53.6

Source: NBR, Statistics Department

2. Imports

During the first half of 2010, imports increased by 17.6% in volume while its value declined by 4.2% due to price effect. This trend is mainly due to the increase in volume of import of consumer goods (39.9%) accounting for 42%%of the total volume of imports. While the import of consumer goods slightly increased by 0.5% in value, the import of intermediate goods declined by 10.2% in value. Construction materials declined by 17.3% in value and slightly rose by 2.2% in volume, a situation mainly attributed to cement and other similar products. The industrial products, slightly declined by 2.0% in value, despite high growth in volume (+41.4%), due to the raw materials for food industries whose importation declined by 25% in value.

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The sensitive decline in both value and volume in fertilizers with respective falling rates of 8 0.4% and 73.6% was main ly due to the less importation of fertilize rs recorded during the first half of 2010 compared to the same period of 2009. Imports of energy and lubricants, of which fuel accounts for 97.2% increased by 56.2% in value and only by 1.1% in volume, due to prices effect during the period. Thus, the imported fuel in the first half of 2010 rose by 64.1% in value and slightly increased by 2.7% in volume.

Table 4: Imports Developments (Value CIF in million of USD, Volume in thousands of tons)

	Jan– Jun. 2009		Jan–Jun. 2010		% change	
	Volume	Value	Volume	Value	Volume	Value
TOTAL IMPORTS	**461 620**	**639.0**	**542 716**	**612.2**	**17.6**	**-4.2**
Consumer goods	**163 158**	**175.8**	**228 246**	**176.6**	**39.9**	**0.5**
Of which: Food products	123 477	60.5	186 850	68.6	51.3	13.5
Health and care	11 605	51.0	12 643	36.0	8.9	-29.5
Capital goods	**21 760**	**211.0**	**19 166**	**152.6**	**-11.9**	**-27.7**
Of which: Transport materials	5 152	31.3	3 228	25.5	-37.4	-18.5
Machines, devices and tools	10 140	141.9	8 998	97.8	-11.3	-31.1
Intermediate goods	**181 792**	**167.1**	**199 343**	**150.0**	**9.7**	**-10.2**
Of which: Construction materials	105 935	70.0	108 233	57.9	2.2	-17.3
Industrial products	56 584	70.1	79 988	68.6	41.4	-2.0
Fertilizers	13 734	11.1	3 620	2.2	-73.6	-80.4
Energy and lubricants	**94 909**	**85.2**	**95 961**	**133.0**	**1.1**	**56.2**

Source: NBR, Statistics Department

Concerning the cross-border trade which is becoming quite significant in Rwandan external trade, the results of a survey conducted in 2009-2010 by Ministry of Commerce, National Bank of Rwanda, and Na tional Institute of Statistics sh ow a country's positive trade balance with neighboring countries. This trade is dominated by crop products and live animals.

The amount of total transactions is 40,058,147,666 RWF between May 2009 and April 2010, dominated by DRC with a share of 63%. Rwanda total export to the four neighboring countries amounted 27,680,139,149 RWF for which DRC accounted for 80% against 12,378,008,517 RW F for imports to which Uganda and DRC accounted for 42.3% and 26.7% respect ively. For the period January-April 2010, the trade balance amounted to RWF 5.8 billion, equivalent to around USD 10 millions.

Table 5: Rwanda cross border trade transactions (in RWF billions) by country

	Imports	Exports	Trade balance
Burundi 1066		1450	384
DRC 721		7396	6675
Tanzania 46		8	-38
Uganda 1962		696	-1265
Total	**3794**	**9550**	**5756**

Source: BNR, Statistics Department.

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II. MONETARY SECTOR DEVELOPMENTS IN 2010

Following the credit contraction in 2009 due to liquidity problem in the banking system, the key objective of the 2010 monetary policy for the National Bank of Rwanda was aiming at keeping a comfortable level of liquidity in the banking system to support the gradual economic recovery as announced in the Monetary Policy and Financial Stability statement of February 26th 2010, while keeping inflation in single digit and stimulating domestic saving mobilization through maintaining positive interest rates in real terms. The credit to private sector is projected to growth by 19.8% in 2010. In addition to the Government and Central Bank deposit and liquidity facilities introduced in 2009, reforms of different Financing Facilities managed by the BNR are planned this year to facilitate access to finance by SMEs including agri-business.

II.1 MONETARY POLICY FRAMEWORK

The current BNR Monetary Program is designed within the Policy Support Instrument (PSI) supported by the IMF. Indeed, after significant achievements of Poverty Reduction and Growth Facility (PRGF) arrangements, Rwanda has shifted to PSI by mid-2010 aiming at addressing important key challenges in the country's economic development. The program supports the authorities' poverty reduction strategy while preserving macroeconomic stability and fiscal sustainability, strengthening monetary and exchange rate policies, and implementing growth enhancing structural reforms.

Monetary and exchange rate policies within PSI framework are underpinned by more effective use of monetary policy instruments and a greater exchange rate flexibility, to achieve low and stable inflation rate. To this end, the Central Bank continues to implement a monetary aggregates targeting regime and thus, quantitative targets are continued to be set for Reserve Money and Net Foreign Assets, as well as a number of indicative targets and structural benchmarks for the short and medium term period. Hence end December 2010, monetary targets have been set at RWF 130.9 billion for reserve money and RWF 356.6 billion for Net Foreign Assets, while inflation is expected to be 7%.

Furthermore, for more transparency and effectiveness of monetary policy implementation, BNR has enhanced its communication strategy by regularly releasing to the public the key Monetary Policy Committee decisions, through direct communication to stakeholders such as banks CEOs, press conferences and publication on the BNR website. This enhanced monetary policy communication strategy is aimed at further improvement of the transmission mechanism of undertaken monetary policy measures and in long term to shape expectations of economic actors.

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II.2 INFLATION

The overall inflation is maintained at low levels compared to the last two years. After recording a quite stable consumer price level during the first quarter of 2010, Rwanda experienced a slight increase in inflation during the second quarter 2010 explained mainly by the seasonal shortage of fresh food products, while low prices of imported goods have been playing an important stabilizing role on domestic market.

On annual basis, inflation rose to 5.0% in June 2010 from 4.2% in May, while it was 2.7% in April, 2.1% in March, 2.5% in February and 4.5% in January 2010. On monthly basis, after quite stable consumer prices level during the first quarter 2010, since March 2010, it slightly increased by 0.5% in April, 0.5% in May and 0.3% in June, attributed to housing, water, electricity, gas and other fuels (+1.6%), communication (+0.5%), miscellaneous goods and services (+0.4%) and health (+0. 2%). Inflation development for July shows continued improvement with the overall inflation standing at 3% in July as a result of falls recorded in local goods, imported goods and fresh food products prices which stood at 3.7%, 0.3% and 12.9% against 5.9%, 1.5% and 14.7% respectively recorded the previous month.

By origin, in July 2010, price level for locally produced consumer goods increased by 3.7% on annual basis, while it increased only by 0.3% for imported goods. Due to seasonal factor, prices were relatively higher for fresh food products during the second quarter 2010 and reached 12.9% in July on annual basis.

Table 6: Annual average inflation developments in % change

	Weight	Annual inflation						Monthly inflation					
		2009	2010					2009	2010				
		Dec	Mar	Apr	May	June	July	Dec	Mar	Apr.	May	June	July
Overall inflation	**10000**	**5.7**	**2.1**	**2.7**	**4.2**	**5.0**	**3.0**	**-1.1**	**0.4**	**0.5**	**0.5**	**0.3**	**-0.8**
Local Goods	7947	6.3	2.7 3.	3	5.0 5.	9	3.7	-1.6 0.	5	0.6	0.6	0.4	-0.9
Imported Goods	2053	1.4	-0.4	0.5	1.0	1.5	0.3	0.9 0.	2	0.6	0.1	-0.2	-0.4
Fresh Food Products	1403	20.5	4.6	6.8	12.7	14.7	12.9	-7.3 3.	0	2.6	2.2	-0.1	-0.6
Energy	767	1.3	1.6 4.	1	6.0 6.	8	4.5	-2.8 0.	9	2.9	1.9	0.8	-2.3
Underlying inflation	**7829**	**3.5**	**1.6**	**1.8**	**2.5**	**3.1**	**1.1**	**0.4**	**-0.1**	**-0.1**	**0.1**	**0.4**	**-0.7**

Source: NBR, Statistics Department

According to BNR forecasts for the third Quarter 2010, the overall forecasted annual headline inflation is expected to be maintained at a low level, rounding 6% in September. The expected low inflation would be explained by continuing good performance in food production, the main driver of inflation in Rwanda, imported inflation expected to be maintained low and stable according to World Bank global outlook of June 2010 projecting inflation in leading economies (G-7) at 1.5% in 2010,

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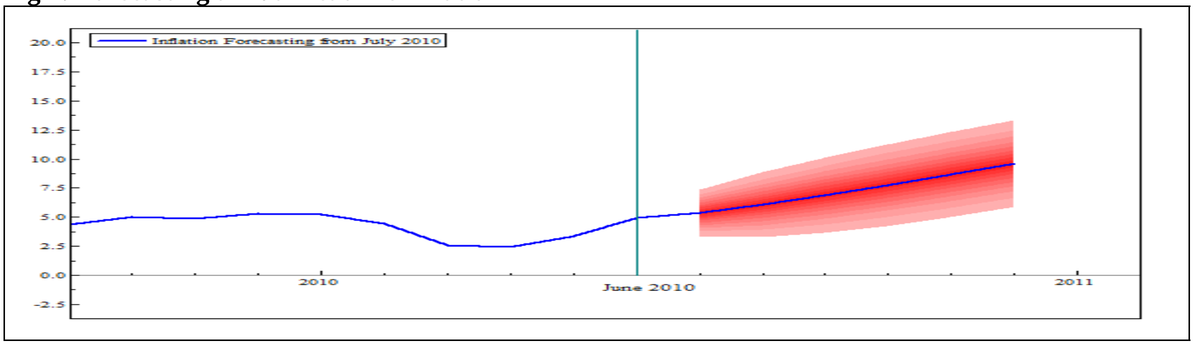
while the manufacturing unit export value would remain unchanged, and stable RFW real exchange rate.

Fig 1: Forecasting annual headline inflation



Source: Research and Policy analysis Department

II.3 MONETARY AGGREGATES AND LIQUIDITY CONDITIONS

II.3.1 Money supply

After a declining trend in Broad Money (-4.2%) due mainly to the reduction in Net Foreign Assets between December 2009 and March 2010, the second quarter of 2010 has recorded a rapid recovery of Money Supply. By end June 2010, Broad Money increased by 10.3% compared to its end March level. This strong increase in Broad Money during the second quarter 2010 has been driven by the Net Foreign assets which increased by 16.4%, allowing the Central Government to increase its net position with the banking system (Net Credit to Government improved by 6.2%) and therefore, its spending. Indeed, it is worth to notice that the fiscal net injection of liquidity in the domestic banking system reached RWF 74.9 billion during the second quarter, from RWF 43.9 billion during the first Quarter.

Table 7: Key monetary aggregates (in RWF billion)

	2009	2010				% changes		
	Dec	Mar	Apr	May	June	Mar10/ Dec 09	Jun/Mar 2010	June 10/Dec 2009
Net foreign assets	**441.8**	**407.8**	**405.9**	**401.6**	**474.8**	**-7.7**	**16.4**	**7.5**
Net domestic assets	**85.3**	**96.6**	**115.8**	**128.3**	**84.3**	**13.3**	**-12.7**	**-1.1**
Domestic credit	217.0	246.8	257.8	270.6	246.5	13.7	-0.1	13.6
Central government	-141.3	-119.9	-112.3	-98.8	-127.4	15.1	6.2	-9.8
Autonomous Agencies	-1.9	-1.9	-2.0	-1.9	-0.2	2.4	-90.2	-90.0
Public enterprises	3.0	2.8	2.9	2.8	2.9	-7.1	4.5	-2.9
Private sector	357.3	365.9	369.2	368.5	371.2	2.4	1.4	3.9
Other items net (Assets: +)	-131.8	-150.2	-142.1	-142.3	-162.1	14.0	7.9	23.0
Broad money M3	**526.6**	**504.4**	**521.6**	**530.0**	**556.2**	**-4.2**	**10.3**	**5.6**
Currency in circulation	**77.0**	**68.4**	**72.5**	**75.0**	**83.1**	**-11.2**	**21.6**	**8.0**
Deposits	**450.1**	**436.0**	**449.2**	**455.0**	**473.1**	**-3.1**	**8.5**	**5.1**
of which: Transferable	190.1	181.0	198.7	197.2	208.7	-4.8	15.3	9.8
Non Transferable	162.4	160.2	158.7	166.4	171.4	-1.4	7.0	5.5
In foreign currency	97.0	94.8	91.8	91.3	92.9	-2.3	-2.0	-4.3

Source: Statistics Department

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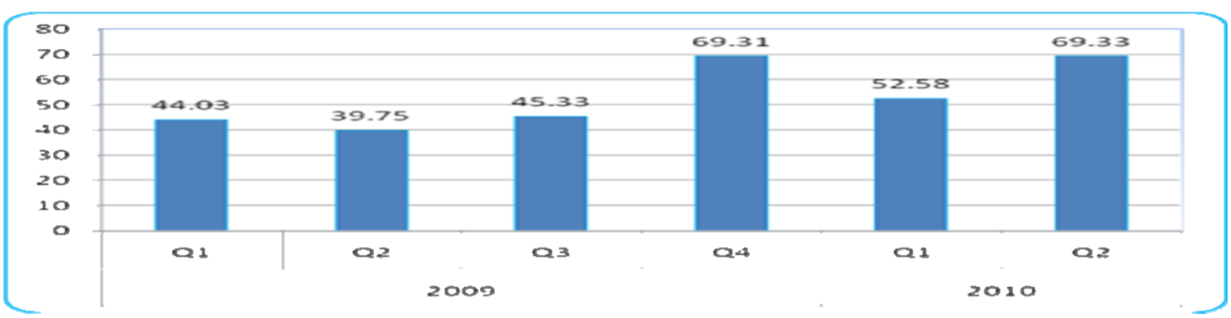
Compared to projected increase in Money supply, current monetary developments are still moderate as Broad Money has increased by 5.6% between end December 2009 and end June 2010, against 8.4% projected in the Monetary Program. The trend of credit to private sector during the first half of 2010 has reflected a moderate increase of 3.9% against 6.7% projected despite a strong recovery observed in the credit markets during the same period.

Indeed, the new authorized loans by banks during this year 2010 indicate a strong recovery process from the liquidity crunch experienced in 2009. During the second Quarter 2010, the new authorized loans stood at RWF 69.33 billion by end June 2010, against RWF 52.6 billion authorized during the previous quarter, that is a total of RWF 121.93 billion authorized during the first half of the year, representing an increase of 45.5% compared with the same period of 2009 where an amount of RWF 83.8 billion was authorized.

The moderate growth of the outstanding credit to private sector while the volume of new authorized loans significantly increased simply reflect simultaneous efforts by banks in recovering non-performing loans distributed before 2009 as evidenced by the size of non- performing loans which is coming down in 2010.

Banks reported an amount of RWF 5 billions of recoveries during the first half of 2010 from loans in arrears at end December 2009. Furthermore an amount of RWF 6.3 billions of Non Performing loans have been written off the balance sheet of banks, explaining why the growth of outstanding credit to private sector looks to be moderate.

Fig 2: New authorized loans by banks to Private sector (in RWF billion)



Source: Financial Stability Directorate, Credit Reference Bureau.

II.3.2 Money demand

Currency in circulation recorded an overall increase of 8.0% between December 2009 and June 2010, following important decline (-11.2%) during the first quarter and a strong growth during the second (+21.6%). This increase of the currency in circulation is

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boosted by an important coffee campaign financing, good harvest in food production which is usually followed by improvement in trade activities requiring more use of cash and a recovery in construction activities as well. Also, important fiscal injection has been driving up the level of currency in circulation, particularly through spending for goods and services on domestic market. The Government spending and credit to private sector also pushed upward the deposits with the banking system increasing by 5.1% during the first half of 2010, attributed to demand deposits (+9.8%) and term deposits (+5.5%), while Foreign Currency deposits declined by 4.3%.

Within the current monetary policy framework, Reserve money remains the operational target and the National Bank of Rwanda consistently monitors developments on a daily basis. It takes required actions and measures to maintain it within the targeted levels**.**

II.3.3 Liquidity Management

Recent changes in banking system liquidity level show a continuing improvement as evidenced by the dynamism in Money and Interbank Market activity. Excess liquidity in the banking system considerably increased since the second half of 2009. In 2010, the banking system liquidity situation continued to improve and significant excess reserves emerged, so that BNR regularly intervenes to absorb excess liquidity in order to keep the Monetary aggregates consistent with quantitative targets defined by the 2010 Monetary Program.

The net BNR credit to commercial banks resulting from mopping up operations of excess liquidity has been increasing during the whole first half of 2010, in addition to important outstanding short term investment in Government T-bills. The total amount of both instruments has been fluctuating between RWF 74.2 billion in December 2009 and RWF 121.8billion as of June 30, 2010, a very high level which should give confidence to banks to more extend their lending operations to the economy. Considering the fiscal net injection projected at RWF 75.0 billion for the second quarter 2010 following the Government spending program, the liquidity level within the banking system is likely to continue to increase in coming months.

II.3.4 Interest rates developments

Aiming at easing credit conditions while keeping interest rates positive in real terms, BNR reduced two times its Key Repo Rate (KRR) from 9% to 7.5% in December 2009 and to 7.0% in March 2010. These measures have significantly contributed to the increase of new authorized loans by banks as expected while, at the same time, the banking liquidity remained at comfortable levels. In this context, the Monetary Policy Committee meeting held in July decided to keep the Key Repo Rate unchanged at 7% during the third quarter of this year.

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In line with the short term liquidity developments in the banking system, the interest rates on Money Market have been significantly fluctuating during the first half of 2010. From 5.3% in January, average Repo rate fell to 4.4% in March and 3.4% in April before increasing to 3.9%; 5.2% and 5.4% respectively in May, June and July following an increase in BNR mopping up operations to regulate the banking system liquidity. Average Treasury bills rate declined also from 8.4% in March to 7.2% in June 2010. In addition, the interbank rate has been declining since the beginning of this year from 7.1% in January to 6.1% in May 2010, before a slight increase to 6.6% in June 2010, to decrease again to 5.7% in July.

However, regarding the commercial bank's rates, the impact of the KRR reviews is not yet significant on lending rates, while the deposit rates considerably declined. Following the important increase in 2009 in view of attracting deposits to reach 9.4% in June, the average deposit rate has been declining and stood at 8.5% in December and 6.9% in June 2010. But, on the other side, the average lending interest rate remained high at 16-17%. As inflation rate in Rwanda remains low from 5.7% to 5.0% between December 2009 and June 2010, banks real deposit and lending rates have been maintained positive.

Table 8: Interest rates (in percentage)

	2009					2010						
	Jan	**Mar**	**June**	**Sept**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**
BNR Policy Rates												
Key Repo rate	8.0	9.0	9.0	9.0	9.0	7.5	7.5	7.5	7.0	7.0	7.0	7.0
Discount rate	12.8	12.0	12.0	12.5	12.5	11.5	11.5	11.5	11.0	11.0	11.0	11.0
Money Market rates												
Repo rate	7.3	5.0	5.5	4.3	4.4	5.3	4.6	4.4	3.5	3.9	5.2	5,4
Refinancing Facility rate	-	-	-	10.5	10.5	-	-	9.0	9.2	-	9.2	9.2
Treasury Bills rate	7.6	7.6	9.1	9.9	7.7	9.1	8.8	8.4	7.9	7.6	7.2	7,1
Commercial Banks rates												
Interbank rate	8.7	9.0	9.0	9.0	7.5	7.1	7.3	6.8	6.3	6.1	6.6	5,7
Deposit rate	5.5	6.6	9.4	8.9	8.5	7.6	7.1	7.2	6.9	6.9	6.9	-
Lending rate	16.3	15.7	16.9	17.6	15.8	17.3	16.1	16.9	16.6	16.7	16.8	-

Source: Statistics Department

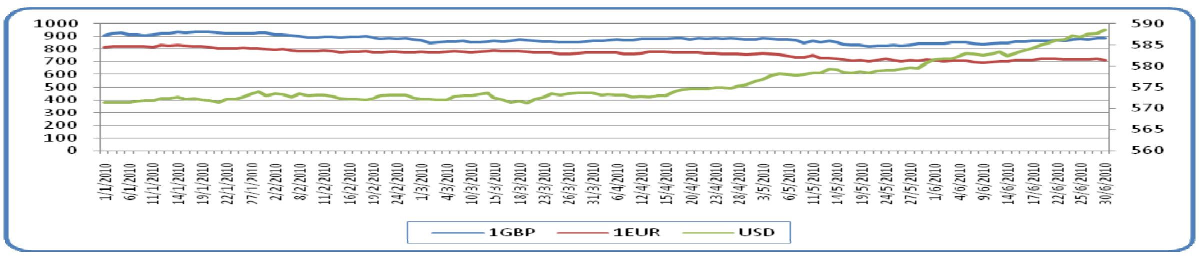
Considering the sustained improvement in the banking liquidity, BNR will continue to implement a proactive monetary policy during the second half of 2010 by keeping the central bank policy at levels that give strong confidence to banks to give more loans to private sector without jeopardizing the achievement of price stability. As inflation rate in Rwanda is expected to be maintained stable and low for the remaining of this year, banks real deposit rates will be kept positive to stimulate domestic savings. It is in this line that the Monetary policy committee decided on 16th July, to maintain unchanged the BNR policy rate at 7.0% for the third Quarter 2010.

II.4 EXCHANGE RATE AND FOREX MARKET

II.4.1 Exchange rate

During the first half of 2010, Rwandan Franc has recorded a depreciation of 3% against the USD, from RWF 571.24 per 1 USD by end 2009 to RWF 588.58 by end June 2010. Aiming at safeguarding the Rwandan export sector competitiveness, the BNR has deliberately accommodated this slightly higher RWF depreciation against USD to offset the effect of the appreciation of the USD on international market.

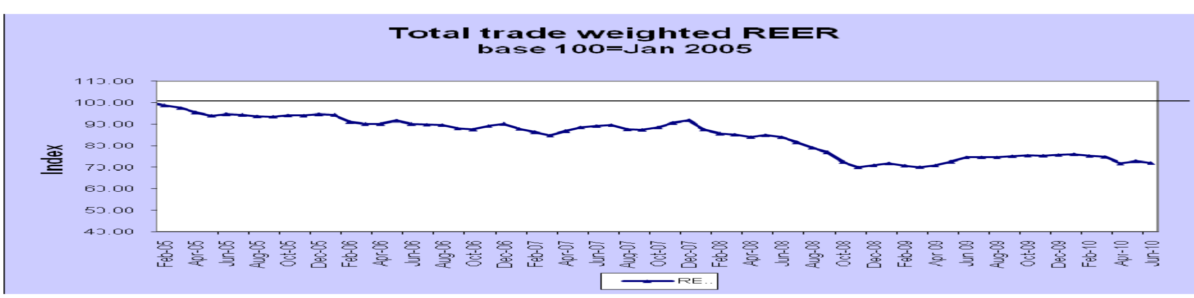
Fig.3: Exchange rate of RWF against major foreign currencies



Source: Financial Markets Department

Against EURO and GBP, RWF considerably appreciated during the same period, respectively by 12.3% and 2.2%. Moreover, against regional currencies, RWF appreciated during the first quarter 2010. Indeed, it appreciated by 8.7%, 1.7% and 0.1% against Ugandan, Kenyan and Tanzanian Shillings and depreciated by 2.1% against Burundi Franc. This trend has reversed since April 2010 and the Real Effective Exchange Rate slightly depreciated.

Fig 4: RWF Real Effective Exchange Rate trend (Base 100:2005)



Source: Research and Policy Analysis Department

II.4.2 BNR intervention **on Forex Market**

As part of an ongoing program to improve operations in foreign exchange market, the existing foreign exchange rates mechanism used as the framework for BNR intervention has been adjusted from July 2nd, 2010 aiming at further enhancing the exchange rate flexibility. It is designed to ease the unpredictability characterizing the timing of current intervention and is expected to help stimulating interbank foreign exchange market and improving market efficiency. During the second half of 2010, BNR will continue to closely monitor the behavior of the RWF exchange rate versus the currencies of trade partners to maintain stable the REER.

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III. FINANCIAL SECTOR DEVELOPMENT

III.1 BANKING SYSTEM

III.1.1 Financial soundness

The banking system continued to demonstrate evidence of general good health in the year to June 2010. In general the sector experienced some improved financial intermediation and increased competition in the mobilization of deposits and a generally steady banking system.

The consolidated balance sheet of the banking industry expanded by 8.3% to 627.1 billion RWF over the year to June 2010 compared with 578.6 billion RWF in December 2009. The significant growth in the banking industry asset size was funded mainly by deposits, which amounted to 462.7 billion RWF compared with 425.4 billion RWF in December 2009. As of June 2010 net loans and advances of commercial banks had reached 305.3 billion RWF, recording 5.7 % of growth over the year to June 2010.

Commercial banks registered an increase of 8.7% in deposits base from 425.4 billion RWF in December 2009 to 462.7 billion RWF in June 2010. After a decrease during the first quarter of year 2010, deposits, being the dominant sources of financing the banks' assets, grew continuously since April 2010 indicating public confidence in the banking sector.

As at June 2010 paid up capital (not including reserves) had reached 56.1 billion RWF and registered an annual growth of 9.6% (June 2009 to June 2010). Similarly, shareholders funds reached 81.1 billion RWF recording an annual growth of 9.7%. All banks are now compliant with the minimum capital required of 5 billion RWF. The capital adequacy ratio (CAR) on a consolidated basis decreased to 17.6% against 19.0% in December 2009. The decrease in capital adequacy ratios was due to the increase of risk weighted assets upgrade. Generally, the banking system is well capitalized and all banks are in compliance with the required minimum capital adequacy ratio of 10% for Tier 1 capital and 15% for total capital (Tier 1 + Tier 2).

A slight upgrade in asset quality was observed through a decrease in Non Performing Loans (NPL) with a ratio (i.e., NPL/ total loan portfolio) of 12.2% at end June 2010 compared to 13.1% in December 2009. The net NPL ratio stood at 10.4% if the interest in suspense (Interest on NPL) is not taken into account. To address this issue, the Central Bank continues to reinforce its monitoring of bank's NPL recovery plans in order to reach the threshold of 7% for each bank by end 2010. For the first half of 2010, commercial bank has recovered about 5 billion RWF on non performing loans.

The profitability upgraded and at end June 2010 consolidated net profit after tax was RWF 4.1 billion RWF compared to 2.3 billion in June 2009. As a result, the annualized June 2010 Return on Assets (RoA) increased to 1.3% from 0.7% in December 2009 while Return on Equity (RoE) also increased to 10.3% at the end of June 2010 from 5% in December 2009.
The table below gives the consolidated financial soundness indicators of commercial banks (in %) as at June 2010.

Table 9: Consolidated financial soundness indicators of commercial banks (in %)

Indicators	2009			2010	
June		September	December	March	June
Solvency ratio (core and total)	19.3	20.5	19.0	18.1	17.6
NPLs / Gross Loans	13.4	13.6	13.1	12.5	12.2
NPLS net/Net loans	11.1	11.7	11.4	11.0	10.4
Provisions / NPLs	70.9	66.0	55.2	57.2	56.8
Earning Assets / Total Assets	77.3	77.1	81.7	78.2	81.1
Large Exposures / Gross Loans	17.8	16.9	13.9	18.5	20.4
Return on Average Assets	0.9	0.9	0.7	-0.2	1.3
Return on Average Equity	6.4	6.4	5.0	-1.4	10.3
Cost of deposits	2.1	2.3	2.4	2.8	2.7
Liquid assets/total deposits	59.3	61.7	65.3	54.7	58.4
Forex exposure/core capital	5.9	0.8	1.9	4.9	1.5

Source: Banking Supervision Department

In order to continue the monitoring of banking system soundness, for this year, on-site inspection will be conducted in 7 banks.

III.1.2 Access to banking services and credit information systems

1. Development of the banks' branches network

In response to the 2008 Rwanda Finscope survey which called on improving the access to financial services, BNR has registered a marked expansion of the current banks branches network. During 2009, 22 additional branches were opened by commercial banks and in 2010, BNR has given a non- objection to start preparations of opening 7 branches in Kigali City, 6 branches in up- country and 3 Desks Offices. The total number of banks' branches is now 105 across the country. Banque Populaire du Rwanda has also 102 sub-branches and 80 counters. During the same period the number of deposit accounts operated by the commercial banks (including BPR) increased by 11% from 1,270,654 at end 2009 to 1,412,528 as at June 2010.

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2. Access to finance by SMEs

In accordance with the vision to become a middle-income country, the Government of Rwanda (GoR) recently adopted a clear SME Policy in order to strengthen Rwanda's approach to dealing with many challenges faced during the past SME development initiatives. This policy aims to promote a culture of entrepreneurship among Rwandans; facilitate SME access to development services including putting in place mechanisms for SMEs to access appropriate business financing; simplifying the fiscal and regulatory framework for SME growth and developing an appropriate institutional framework for SME development.

As regard mechanisms for SMEs to access appropriate business financing, it has been decided to consolidate all scattered SME support funds into one "SME Development Fund" to be managed by professional fund managers under an independent new BRD subsidiary. This will resolve the issue of complications in accessing the fund, since it will operate under a "one stop shop" management mechanism.

3. Credit Information System

The Central Bank has continued to enhance credit growth to private sector by laying conducive infrastructures to enable credit providing institutions make faster decisions through credit reference services. The existing public registry has been modified to meet all the criteria of the Doing Business analysis as well as providing a comprehensive credit report for use by financial institutions.

Regarding the establishment of a private credit bureau in Rwanda, the law on credit bureau industry is already in effect and a credit bureau known as Credit Reference Bureau Africa (CRB Africa) established in May 2010 and was launched in July 2010. The Central Bank in its mandate will oversee the operations of the duly licensed credit bureau and will continue to sensitize the public on the importance of the credit reference agencies, and legal rights of the consumers.

III.1.3 Legal and regulatory framework reforms

In the effort to strengthen and improve the efficient functioning and financial soundness of the banking system, BNR updated the prudential regulations to implement the banking law. In this respect, the 6 regulations already published on the BNR website in 2009 and the 3 more regulations approved by the Board in the first half of 2010 will all be translated and submitted for publication in the Official Gazette. In addition, 2 more regulations will be drafted and circularized to stakeholders for comments. Furthermore,

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a feasibility study to establish a deposit guarantee scheme in the Rwandan banking system will be conducted by a consultant in September 2010.

III.2 MICROFINANCE SECTOR

III.2.1 Supervision and capacity building activities

During the first semester 2010, the development of MFIs focused on overcoming financial exclusion due to various barriers as evidenced by Rwanda Finscope 2008 survey. Licensing new MFIs, off-site surveillance and on-site examinations have been performed on ongoing basis. In order to improve the efficiency of MFI's operations, during the first semester of year 2010, on-site inspections were conducted in 19 MFIs including the 10 biggest ones. Licensing of SACCOs established in line with UMURENGE SACCO program has been performed with more intensity during the first semester of the year 2010.

In order to professionalize the microfinance sector and to improve the Management Information System (MIS) of MFIs, the Association of Microfinance Institutions in Rwanda (AMIR) has put in place a computerization strategy for the MFIs. This strategy has been sent to CGAP for comments and CGAP agreed to finance the services of an expert who is supporting MFIs to implement the strategy during the pilot phase. The consultant from CGAP working with AMIR developed management tools which will be tested in five MFIs for the harmonization and for the purpose of having a strong manual system prior to any computerized system.

In the first half of 2010, AMIR provided various trainings courses including accounting and financial analysis; corporate governance and internal control, preparation of business plan and financial projections, risk management and management of portfolio at risk.

BNR also builds capacity of MFIs through off-site and on-site examinations where BNR provides skills to MFIs on microfinance regulations and compliance, especially in the regular prudential meetings.

III.2.2. MFIs consolidated financial situation

Considering the consolidated financial position of MFIs, total assets increased by 13.2% from December 31st, 2009 to June 30th, 2010 moving from Rwf77, 963 million to Rwf 88,253 million while equity has increased by 16.3%. Gross loans and deposits increased by 22.1% and 15.2%, respectively.

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The loan portfolio in the whole sector performed with a slight decrease of delinquency rate moving from 9.2% at the end of December 2009 to 8.5% at the end of June 2010. However, the tendency is different if SACCOs are considered without CSS and are separated with MFIs having the legal status of limited company. Indeed, the non performing loans (NPL) of SACCOs increased by 56.4% from December 31st, 2009 to June 30th, 2010 moving from Rwf 709.2 million to Rwf 1.110 billion with an increase of delinquency rate from 8.4% to 11.2% at the end of the two periods, respectively.

Considering the MFIs operating with a legal status of limited company, the loan portfolio performed with a decrease of NPL by 18.5% and a slight decrease of delinquency rate from 13.3% to 10.8% from December 2009 to end June 2010.

It should be stressed that the problem of NPLs occurs with more acuity in the sector of SACCOs and leads to a very high bankruptcy rate. This problem is related to poor governance, mismanagement, lack of ownership in the context of high financial illiteracy. A significant number of SACCOs are in self liquidation process. In this regard, the Government should take adequate measures to eradicate the bad culture of non repayment of loans in the microfinance sector.

Table 10: MFIs Consolidated financial situation (in millions RWF)

	31-Dec-09	Variation %	30-Jun-10		31-Dec-09	Variation %	30-Jun-10
	ALL MFIs				**MFIs; CSS Excluded**		
Total Assets	77,963.20	13.2%	88,254.72		36,055.68	7.9%	38,891.59
Cash and Cash Equivalent	16,936.90	25.5%	21,253.63		8,581.85	8.1%	9,280.72
Gross Loans (Before Provisions)	50,143.93	22.1%	61,225.77		24,718.24	10.0%	27,179.23
Non Performing Loans	4,608.74	13.3%	5,220.31		2,872.24	3.8%	2,982.59
Provisions	2,110.65	37.9%	2,910.42		1,282.38	26.5%	1,621.97
Loans (Net of Provisions)	48,033.28	21.4%	58,315.35		23,435.87	9.1%	25,557.26
Deposits	48,929.83	15.2%	56,356.44		19,099.64	9.3%	20,881.49
Equity	22,180.23	16.3%	25,785.41		11,955.35	16.0%	13,872.31
Non Performing Loans_NPL Rate	9.2%		8.5%		11.6%		11.0%
Liquidity Rate	69.1%		84.2%		69.4%		66.9%
Capital adequacy (Solvency)	28.4%		29.2%		33.2%		35.7%

Source: Microfinance Institutions Supervision Department

III.2.3. LIQUIDATION PROCESS OF MFIs CLOSED IN 2006

The liquidation process of the 9 closed MFIs in June 2006 is ongoing. End of July 2009 has been set as the final deadline for depositors to declare their deposits. The objective of the year 2010 is to close this operation and distribute the liquidation proceeds to the depositors. At the end of June 2010, more than Rwf 1 billion was spent to compensate depositors for 50% of their deposits.

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III.2.4.IMPLEMENTATION OF UMURENGE SACCO PROGRAM

In line with the Government's strategy of domestic savings mobilization and building an inclusive financial system in Rwanda, the "UMURENGE SACCO program" was adopted. The main objective of the program is to allow unbanked but bankable people have access to financial services at low transaction costs.

To accelerate the process of licensing UMURENGE SACCOs, the BNR decided to offer provisional licenses. For the first phase each created SACCO and having obtained the legal status granted by the Rwanda Cooperative Agency (RCA) is only allowed to open accounts for members and collect their deposits, which can be withdrawn on request as well as to continue to collect shares from new members. It is worth to recognize that all the 416 SACCOs have completed the first stage of licensing and got approved by the National Bank of Rwanda.

For the second phase and in order to obtain the permanent license, the SACCO has six months, starting at the date of their licensing, to fulfil the remaining requirements including the submission to the Central Bank of a business plan and a manual of procedures for its main activities. It is worth to mention that only four SACCOs are fully licensed as of today. Below are some performance indicators of Umurenge SACCO program at end of June 2010.

- Number of members : 966 831 ;
- Capital pledged : Rwf 3 550 167 900 ;
- Paid up capital : Rwf 1 449 876 283, which represents 40.8% of the capital pledged ;
- Amount of deposits: Rwf 1 449 876 283.

III.2.5. Priorities for the remainder 2010

During the second half of the year 2010, apart from its ordinary mission of off-site surveillance and on-site examination of MFIs, the areas where the National Bank of Rwanda will focus on in the microfinance sector are:

- Complete the second phase of the licensing process of UMURENGA SACCO;
- Organize the workshop on the harmonization of microfinance regulation in the EAC countries (8th- 10th September 2010);
- Produce a cabinet paper on the culture of non repayment of loans received from MFIs and its negative impact on the UMURENGE SACCO Program and other

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Government initiatives related to the promotion of financial inclusiveness in Rwanda;

- Keep the dialogue with liquidators of 9 closed MFIs to discuss on the progress of the liquidation and the way forward;
- Streamline the interventions of the Government entities in SACCO's establishment;
- Carry out a feasibility study of deposit insurance for MFIs and its establishment;
- Monitor the merging process of some existing SACCOs with SACCOs created in line with UMURENGE SACCO Program;
- License some existing Union of SACCOs not yet licensed, after assessment;
- Follow up of the evolution of NPL in the microfinance sector.

III.3 NON- BANK FINANCIAL SECTOR

III.3.1 Introduction

Insurance companies and pension schemes commonly referred to as "institutional investors" are the main non-bank financial institutions that BNR is currently supervising. Like banks they play an intermediary role of savings mobilizations, allocation of resources by investing in different financial and non financial assets. BNR the regulator set up a department with a core mission to ensure that these institutions are financially sound in order to meet their present and future financial obligations.

1. Insurance Sector

Reference to the previous monetary policy statement of February 2010, BNR had to accomplish a number of activities ranging from strengthening NBFI sector legal infrastructure and supervisory framework. In the first semester 2010 a number of activities were accomplished, including:

1. Drafting of the insurance contract law was completed and presented to all stakeholders in a workshop;
2. More insurance regulations (regulations on liquidation and dissolution, regulations on mergers and closure of insurers) are in drafting stage;
3. Licensing of insurance intermediaries (about 126 insurance agents)
4. Off-site surveillance for all insurers and production of off-site analysis reports.

In the second half of 2010, BNR will complete drafting of the two regulations (regulations on liquidation and dissolution, regulations on mergers and closure of insurers) and commence on drafting the insurance mandatory law. Off-site surveillance will continue to be done and On-site inspection of at least two insurers will be carried in the second semester of 2010.

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According to insurance sector statistics available, the industry growth has continued to be positive in terms of assets and premiums written. The sector is comprised of: six private insurers, (i. e., two are foreign and four are locally owned) and two public insurers- making a total of eight insurance companies, four licensed insurance brokers and 126 insurance agents (all licensed in 2010). With the existing legal reform and supervisory framework, it is anticipated to see more inflow of foreign companies and private investors.

Table 11: Evolution of insurance players

Year	Number of competitors(cumulative figures)
1975-1980	**1**
1981-1995	**2**
1996-2005	**5**
2006-to date	**8**

Source: Non Bank Financial Institutions department

Insurance sector penetration measured by the ratio of gross premiums written to GDP is showing a positive trend as indicated in the table below. However, this ratio is still far below that of middle income economies like South Africa (10%). BNR's target is to have 10% penetration ratio by 2020 and with the current reforms going on and minimization of the existing challenges, it is hoped the target will be attained.

Table 12: Insurance: Premiums/GDP (in billions Rwf)

	2005	2006 2007		2008 2009	2010	Projections
Gross Premium	**13.7**	**19.8**	**27.6**	**35.9**	**47.9**	**62.4**
GDP (nominal)	**1,440**	**1,716**	**1,811**	**2,014**	**2,187**	***2,515**
% G.P/GDP	1.0%	1.2% 1.	5%	1.8% 2.	2% 2.	5%

Source: Non Bank Financial Institutions department

**2010 GDP estimate is based on 15% nominal increase*

The insurance industry size has grown over the past years as demonstrated by the industry asset in the table below. The asset growth trend is remarkable.

Table 13: Insurance: Assets/GDP (in billions Rwf)

	2005	2006 2007		2008 2009		2010 Projections
Assets	**31.8**	**44.3**	**61.7**	**80.1**	**102.9**	**132.9**
GDP (nominal)	**1,440**	**1,716**	**1,811**	**2,014**	**2,187**	***2,515**
% G.P/GDP	2.2%	2.6% 3.	4%	4.0% 4.	7%	5.3%

Source: Non Bank Financial Institutions department

**2010 GDP estimate is based on 15% nominal increase*

2. Pension Sector

During the first half of 2010, some activities were performed to improve the legal framework relating to regulation and supervision of the pension sector. BNR assisted by

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USAID expert drafted pension core regulations (i.e., regulations governing establishment of pension schemes and service providers and regulations governing pension fund management). Additionally, Off-site surveillance of Social Security fund of Rwanda (CSR) was carried out and analysis report produced. In the same period, BNR continued to receive questionnaires on Private pension scheme census survey that is still ongoing. A mini report on the progress of the survey was produced and the final report will be produced in the second half of 2010 after collecting all questionnaires. Similarly, on-site inspection for CSR will be carried out.

Rwanda's pension sector coverage ratio for active population is approximately 5.7% and Rwanda's target is to increase the ratio to 25% by 2020. The pension sector performance indicators such as Asset/GDP and Contribution/GDP show a positive trend.

Table 14: Pension: Assets/GDP (in billions)

2007		2008	2009	2010 projection
Assets	**100.6**	**129.0**	**142.4**	**161.0**
GDP (nominal)	**1,811**	**2,014**	**2,187**	**2,515**
% Assets/GDP	5.5%	6.9%	6.5%	6.40%

Source: Non Bank Financial Institutions department

**2010 GDP estimate is based on 15% nominal increase*

Table 15: Pension: Contribution/GDP (in billions)

	2007 2008	2009		2010 projection
Contribution	**15.8**	**20.7**	**23.9**	**25.0**
GDP (nominal)	**1,811**	**2,014**	**2,187**	**2,515**
% Contribution/GDP	0.9% 1.	0% 1.	1%	1.0%

Source: Non Bank Financial Institutions department

**2010 GDP estimate is based on 15% nominal increase*

In addition to strengthen the legal and regulatory framework, BNR provided training to its inspectors (insurance and pension). The pursued trainings include; study tours, workshops, attachments to other supervisory authorities in the region and professional courses.

The National Bank of Rwanda (BNR) will also undertake an on-site inspection for the Social Security Fund of Rwanda (CSR) with the help of a consultant. At the same time, the law governing pension schemes and accounts is expected to be enacted before end 2010. The bank will also ensure that all the core pension regulations are provided to support the implementation of the pension law. In the second semester 2010, the pension survey will be finalized. BNR will also continue to pursue intensive trainings to build capacity for NBFI supervisors through attachments, in-house training, study tours and professional courses.

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III.3.2 Financial Systems Stability

The establishment of the Financial Stability Unit within the Financial Stability Directorate was created in order to identify, analyze and research potential threats to and weaknesses of the financial system and make proposals and encourage changes to promote the safety and effectiveness of the financial systems. In the next semester of 2010, the unit will embark on collection of data from banks, microfinance, insurance, and pension to assess robustness of financial systems, develop key macro prudential analysis indicators, and write both fourth quarter report and 2010 annual financial stability report.

III.4 CAPITAL MARKET

The Rwanda over the Counter (ROTC) Market has been in existence since early 2008. A number of achievements have been registered within the framework of Capital Market Development, including:

Legal framework: The law establishing the Capital Market Authority, the law regulating the Capital Markets in Rwanda and the law regulating the Collective Investment Schemes are in parliament for adoption and publication. In addition, the Trust Law was drafted and in the process of the Cabinet approval. National public Education and awareness campaigns have been organized for Government, Private Institutions, and general public. A total of 7861people were sensitized on Capital Markets.

Capacity Building: Training for market practitioners and general public under the Securities Industry Training Institute (SITI) program was conducted at the premises of CMAC and a total of 165 participants received certificates of participation. The CMAC staff attended different training programs.

Securities Listed on ROTC: Currently, the securities listed on the Capital Market include the Government three year **5 Billion** Rwanda Francs issued in February 2008 with a coupon rate of 8.25%. Two more Government Bonds of **2.5** billion (Two years) and **1.5** billion (Three years) were issued in January and April 2010 and their respective coupon rates are 9.5% and 9.75%. Before the end of this year, two more Government Bonds will be issued and listed on the ROTC Market. A two year 2.5 Billion and a five year 2.5 Billion Bonds are expected to be issued in August and October 2010 respectively.

Besides, since the first half of 2009, the equity market was activated with the cross-listing of the Kenya Commercial Bank on the Rwanda OTC Market. In addition, the

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Government of Rwanda has approved the privatization program of its shares through the Rwanda Capital Markets. The privatization of BRALIRWA is at advanced stage and the government has nominated its team of advisors. This will mark the first domestic public offering in Rwanda. More domestic companies are expected to be listed on Rwanda OTC market after Bralirwa.

The Kigali City Council Infrastructure Bond which was to be issued during the Budget year 2009/2010 did not take place. However, the idea is still on board and if the scheduled preliminaries are respected, this Bond will be issued in the second half of the fiscal year 2010/2011.

Capital Market Incentives: the tax incentives have been published in Official Gazette of the Republic of 28th May 2010. The Rwanda Law on direct taxes on income and the code of value added tax modified to incorporate the proposed capital markets tax incentives.
Acquisition of the electronic trading system and display platform: the process to acquire the electronic trading system and display is underway.

Regional Integration: The Capital Market Advisory Council (CMAC) has signed a Memorandum of Understanding with the East African Securities Regulatory Authorities (EASRA), the regional body of capital market regulators. CMAC has also joined East Africa Stock Exchange Association. Trading across the region is taking place.

The Rwanda Diaspora Mutual Fund was licensed and successfully launched during the last Diaspora Convention which took place in December 2009. Of recent, a number of Rwandese in the Diaspora has expressed their desires to invest in the Government Securities. Process is underway to facilitate them participate in the October 2010 Issuance.

III.5 PAYMENT SYSTEM MODERNIZATION

1. Progress made in 2010

Given that an efficient and smooth operating national payment system is a necessary precondition for business development and economic growth, in 2010, BNR and stakeholders continued to work on the payment system modernization program to ensure that payment systems are efficient and reliable. This program involves introduction of new payment instruments, mechanisms (systems) and improving the legal environment.

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Concerted effort was put in laying a robust framework so as to raise public confidence in Payment Systems. The BNR together with the World Bank carried out an assessment of the present legal framework with a view to identifying all the gaps and be able to work towards filling them in order to have a robust legal framework that can support modern payment systems. Consequently several laws in first quarter of 2010, notably; the Payment system Law, the Electronic Transactions law, the Book entry securities holding (CSD) Law as well as the regulation governing the Payment Service Providers were published in the Official Gazette.

Modern payment systems is characterized by a real time settlement system. The BNR has signed a contract with CMA to implement the Rwanda Integrated Payments Processing System (RIPPS), which encompasses the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS) and the Central Securities Depository (CSD), all three running on the same platform. The implementation is earnestly under way and is expected to be launched by end December 2010.

Concerning the retail payment systems, the banks continued to issue payment cards and SIMTEL as a common platform ensures that the infrastructure is interoperable. On the other hand, SIMTEL started to issue to banks a proprietary card, which is personalized at SIMTEL and delivered to banks in not more than 48 hours. This will substantially cut down the time it has been taking for bank clients to obtain cards and about 7 700 cards were issued between February and August 2010. The following table shows the evolution of payment cards usage in Rwanda in 2010.

Table 17: Statistical data on payment cards

	2009	*June 2010*
Total number of Automated Teller Machines (ATMs) in the country	26	73
Total number of Point of Sale (POS) terminals in the country	94	98
Total number of debit cards	27 065	34 791
Total number of credit cards	453	458
Total number of transactions		
Payments by local debit cards	212 568	106 391
Payments by international cards	29070	10980
Total value settled (*Rwandan francs millions)*		
Payments by local debit card	4568	5428
Payments by international cards	6470	2736

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The year 2010, also saw several initiatives in mobile payments and remittances being licensed. MTN has been fully licensed to operate the "MTN Mobile Money" as a mobile payment service. In the three months that MTN money has operated, there are 133 337 subscribers, and about 2 500 transactions per day.

All over the developing world, remittances have become an important source of external finance. Therefore to facilitate, the Rwandan Diaspora send back home fund easily, stand alone Remittance Services Providers (RSP) were licensed. Notable among are; Dahabshill Money Transfer Ltd, Virunga Express, Speedex Rwanda Ltd, UAE Exchange Rwanda Ltd and Madina Money Transfer Ltd. This will ensure that the Rwandan Diaspora can easily remit funds back home and will also enhance the compilation of our remittances statistics. The figures have risen since after allowing the RSPs to operate. Initially all RSPs had to use banks so as to be able to send and/or receive funds. More still, western union and money gram got the banks in exclusive contracts and blocked out other service providers. However, the new Payment Services Regulation removes these exclusive contracts and there has been a noted increase in the remittance figures as the table below shows.

Table 18: Data on remittances from Diaspora using Remittance Service Providers (in USD million)

	2005	*2006*	*2007*	*2008*	*2009*	*June 2010*
Total remittance inflows	42.85	63.87	103.03	139.89	172.43	117.75

2. Ongoing Projects

To further strengthen the legal and regulatory framework, several rules and regulations are now being drafted and will be passed to support the implementation of the above mentioned laws. Regarding retail payment systems, concerted effort are being put in the following areas: International connectivity; both acquiring- the ability to accept international cards on our infrastructure and issuing – giving local clients cards that enable them transact abroad, Massive issuing cards and ATM (Automated Teller Machine) and POS (Point Of Sale) deployment based on the principle of interoperability.

Concerning the Rwanda Integrated Payments Processing System (RIPPS), RTGS (Real Time Gross Settlement) and some CSD (Central Securities Depository) and ACH (Automated Clearing House) functionalities will be ready by end December 2010 and the whole system will be fully functional with all advanced features by March 2011.

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III.6. EAC MONETARY UNION

The National Bank of Rwanda will continue to participate and play a leading role in all activities related to the establishment of the East African Monetary Union. These include the negotiation of the Monetary Union Protocol expected to be signed by 2012 as well as different priority activities identified by the last Monetary Affairs Committee meeting held in Arusha Tanzania that would be undertaken in the transition to East African Monetary Union (EAMU). These priorities fall within the following broad functional areas: Economic policy, Financial markets, Prudential supervision of financial institutions and financial stability, Information technology, Payment infrastructure, Capacity building, Legal Issues, Finance and Accounting and Banking and Currency.

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CONCLUSION

During the current Year 2010, Rwandan economy is evolving in a better international and national economic and financial environment compared to 2009. Rwanda economic has experienced a significant recovery during the first half of 2010 in all production sectors and the growth rate of the economy is expected in the range of 7-10%.

To support this economic development, the National Bank of Rwanda will continue to implement a monetary policy aiming at keeping a comfortable level of liquidity in the banking system, while keeping inflation in one digit number and stimulating domestic saving mobilization through maintaining positive interest rates in real terms. In foreign exchange market, BNR will continue to closely monitor the behavior of the RWF exchange rate versus the currencies of trade partners to maintain stable the REER.

With regard to financial sector development, the National Bank of Rwanda will continue to strengthen the legal and regulatory framework to enhance market confidence and stability of the financial sector.

More efforts will be devoted to on-site inspections and off-site surveillance analyses to enforce compliance to prudential norms in all subsectors of financial system. Initiatives to eradicate poor loan repayment culture will be undertaken through financial literacy campaigns and other measures to check on misbehaviors. Financial inclusion remains BNR's top priority and as such Umurenge SACCO phase II licensing process is expected to be advanced before the end of 2010.

Regarding capital market development, some achievements have been registered. These range from the legal framework, capacity building and new securities listed on the Rwanda over the Counter Market. CMAC has also joined the East Africa Stock Exchange Association. The Rwanda Diaspora Mutual Fund was licensed and launched in December 2009. Of recent, a number of Rwandese in the Diaspora has expressed their desires to invest in the Government Securities. Process is underway to facilitate them participate in the October 2010 Issuance.

Payment Systems modernization has been taken on in earnest, the implementation of the Rwanda Integrated Payments Processing System is well under way. The Functional specifications for the system have been signed off and customization of the system to the Rwandan context is going on with the supplier. The remaining part of 2010 will include; hardware acquisition, customization, software installation, training of the participant banks and others like the Ministry of Finance and deployment of the system.

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Banks substantially increased the deployment of ATMS, currently we have about 73 ATMs in the country, however, due to various issues, some are not yet connected. About 10 ATMs accept international cards and several Point of Sale (POS) are in the market. We shall continue to work with banks to ensure that more ATMs are connected and full interoperability occurs through SIMTEL and improve the system's (SIMTEL) efficiency as well.

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